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C O N F I D E N T I A L SECTION 01 OF 02 BAGHDAD 002975

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SUBJECT: SOUTHERN IRAQ OIL AND GAS SITUATIONAL ASSESSMENT,
PART 3: HELP FROM THE USG AND OIL COMPANIES STILL NEEDED

REF: (A) BASRAH 36 06/20/2009 "SHELL STILL OPTIMISTIC
ABOUT FLARED GAS PROJECT"

Classified By: Economic Minister Counselor John Desrocher for reasons 1
.4 (b) & (d)

11. (C) Summary: USG help is still crucial to the security and operations of Iraq,s two offshore oil export terminals, through which 75 percent of Iraq,s oil exports flow. Without USG help, we assess that both terminals, at least in the short term, would experience periodic reduced throughput or outages. Separately, the construction of onshore export infrastructure at Al-Faw Metering and Manifold Station is progressing very slowly. The current condition of Rumaila oil field might pose concerns for BP/CNPC when their contract begins. End Summary.

12. (SBU) On October 24-26, econoffs traveled to southern Iraq to assess the current state and future potential of Iraq,s southern oil and gas facilities and export infrastructure. Econoffs flew over the southern onshore oil export pipelines (which carry 75 percent of Iraq,s oil exports), the Al-Faw Metering and Manifold Station (which is the starting point on the Arabian Gulf coast for the offshore oil export pipelines), and Rumaila oil field (Iraq,s highest producing field with Iraq,s second largest reserves, for which the Oil Ministry signed a development and production contract with BP/CNPC in November). Econoffs also toured Iraq,s two offshore oil terminals in the Arabian Gulf: Al-Basra Oil Terminal (ABOT) and Khawr Al-Amaya Oil Terminal (KAAOT).

No Signs of Progress in Al-Faw Expansion Project

13. (C) Southern onshore oil export pipeline capacity is estimated to be about 1.8 million barrels/day (mbpd), but is currently limited by an offshore pipeline capacity of about 1.6 mbpd (see septel for a discussion of offshore pipeline capacity issues and the South Export Redundancy Project (SERP) for offshore pipeline expansion). As part of a plan to expand onshore export capacity to balance offshore export expansion from SERP, the Oil Ministry has been attempting since early 2005 to rebuild eight of the sixteen 500,000 barrel oil storage tanks and install pumps at Al-Faw that were destroyed in the 1980s during the Iran-Iraq War. In total, the Oil Ministry intends to install more than 30 tanks with a combined capacity of approximately 10 million barrels at pump stations in southern Iraq. During our flyover, we saw no evidence of onsite work on this project, although the remnants of the old tanks had been removed.

Few Signs of Much-Needed Development in Rumaila Oil Field

14. (C) During our flyover of Rumaila oil field, which spans about 425 square miles, the degraded condition of its infrastructure and the widespread environmental problems, such as lakes of oil and flaring gas, were obvious and could be a challenge for BP/CNPC as it implements its contract (see ref A for additional information on the extensive environmental problems in Basra's oil fields). Basra province, where Rumaila is located, flares about 700 million standard cubic feet of gas per day, according to published Shell data, representing millions of dollars per day in lost revenues. Econoffs did observe some evidence of the Oil Ministry,s development program: six wells being drilled or QMinistry,s development program: six wells being drilled or rehabilitated, two by Weatherford International and four by the Oil Ministry,s Iraqi Drilling Company (IDC).

Al-Basra Oil Terminal: Would Have Outages Without USG Help

15. (C) During econoffs, tour of ABOT, which exports about 1.6 mbpd, the importance of USG leadership in the security and operation of this oil terminal was striking. A U.S. Navy (USN) detachment lives on the terminal and most of ABOT,s security is provided by the USN. Iranian incursions around ABOT and KAAOT occur regularly by fishing vessels and probing actions by the Iranian Revolutionary Guard Corps,s naval forces using dhows and other light vessels, according to the local U.S. Navy commander. The USN is building Iraqi capacity so that full responsibility for ABOT,s security can be transferred to the Iraqi government by the end of 2011. The USN detachment also watches over the terminal,s export operations, which are ostensibly managed by a smaller number

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of Iraqis from the Oil Ministry,s South Oil Company. The ABOT,s operations are made possible by a team of USN Seabees that continually makes safety-related repairs to the oil terminal.

16. (C) Since the USN makes only necessary safety-related repairs, the overall condition of ABOT remains substandard. The ABOT has various safety hazards and other, less crucial, repairs are needed. Without USG help, we assess that ABOT, at least in the short term, would experience periodic reduced throughput or outages due to a lack of preventative maintenance and repairs.

Khawr Al-Amaya Oil Terminal: Extreme Disrepair

17. (C) Our tour of KAAOT reinforced our assessment that the Oil Ministry is not ready or able to adequately operate either oil terminal without USG help. The USN confirms that little maintenance is being performed on KAAOT (which was built in 1958). Only mission critical systems repairs are being done, virtually of all of them by the USN. The structure itself is in extreme disrepair, with steel I-beams so damaged and rusted they look like Swiss cheese. Deck plating is unsecured, bent, warped, rusting, and highly unsafe. Broken equipment and other trash and debris littered every surface of the installation. It was the view of the experts present that KAAOT would require wholesale reconstruction, but given its shallow draft such an effort is likely not worth the investment. Standing between ABOT and Iran, KAAOT might be useful as a forward security post, but may never resume its role as an important export facility.

18. (C) The joint security of ABOT and KAAOT is provided by a single, integrated system jointly staffed by USN and Iraqi Navy personnel. The operations center on either terminal can control the security around both terminals. This system continues to function on KAAOT, but probably only because of USN maintenance. However, even the life support systems provided by the USN have sometimes failed, mainly because of repeated failures of onboard electrical generators. As an example, the USN engineer guiding econoff,s tour said the

electricity on KAAOT failed recently, and the Iraqis appeared to make no effort to restore it. Instead, they lived without power, bathed in the ocean, and adapted as necessary until the USN, in exasperation, finally came from ABOT to once again restore the electricity. The same USN engineer also said the lack of attention to maintenance and repair results from the Oil Ministry paying insufficient salaries to the workers, who fish from the terminal to supplement their income. Preventative maintenance is therefore avoided, the engineer said, since it is viewed as taking time away from fishing -- the workers, "real" jobs. During our tour, econoffs observed a number of fishing lines hanging from various places on the terminal.

¶9. (C) Since KAAOT only berths one or two smaller tankers (tankers with capacities of 1 million barrels, not 2 million barrels like the tankers that berth at ABOT) each month and has a capacity of only about 240,000 barrels/day, it is not crucial to Iraq's oil exports. However, KAAOT offers a disconcerting glimpse into what the security and operations of ABOT might degrade to without USG help.

Comment: Oil Ministry Officials Should Visit ABOT and KAAOT

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¶10. (C) The importance of these oil terminals, especially ABOT, cannot be overstated. ABOT is a single point of failure for the entire Iraqi economy. About 75 percent of Iraq's oil exports -- and therefore almost 70 percent of Iraq's total revenues -- pass through ABOT. Dramatically improved maintenance of this terminal is critical to sustaining Iraq's recovery and requires urgent focus by the Oil Ministry. We anticipate that international oil companies that sign contracts to develop Iraq's southern oil fields will drive much of this effort. We also will encourage and, as possible, support a trip to ABOT and KAAOT by key Oil Ministry officials to increase their understanding of the problems facing ABOT, KAAOT, or any new offshore oil infrastructure. We are unaware whether any Oil Ministry officials have visited ABOT or KAAOT in recent years, and the head of the Iraqi Navy recently visited ABOT for the first time in 20 years.

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